

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2019/2020

### BEI2114 – INTERNATIONAL ECONOMICS

21 OCTOBER 2019

9 a.m. – 11 a.m.

(2 Hours)

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#### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **TWO (2)** pages with **FOUR (4)** Structured Questions
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Answer in the answer booklet provided.

**ANSWER ALL QUESTIONS (100 MARKS)****Question 1 (25 MARKS)**

- A) Discuss how openness to trade can influence economic growth in a country. (7 marks)
- B) Explain factor-price equalization theory of Heckscher and Ohlin, and discuss its strength and weakness. (8 marks)
- C) Suppose labor productivity in China is such that one hour of labor is required to produce one gallon of wine while two hours of labor are required to produce one pound of cheese.
- Assuming the availability of 1 million labor hours, draw a constant cost production-possibility curve for China with quantity of cheese measured along the vertical axis and wine on the horizontal axis. Explain your graph. (5 marks)
  - If China has a comparative advantage in the production of wine, show and explain where, with free trade, China will produce on its production possibilities curve drawn in (i) (3 marks)
  - If the free trade price of wine is two pounds of cheese per gallon, draw a trade line to illustrate how China can gain from free trade of wine in the production possibilities curve drawn in (i) and explain. (2 marks)

**Question 2 (25 marks )**

- A) The table given below shows the pre-tariff and post-tariff prices, domestic production and consumption of steel in the US. Suppose the US government imposes a specific tariff of \$0.50 per pound on copper imports by the country.

	<b>Pre-tariff</b>	<b>Post- tariff</b>
<b>World Price</b>	\$0.50 per lb	\$ 0.40 per lb
<b>U.S. Domestic Price</b>	\$0.50 per lb	\$ 0.60 per lb
<b>U.S. Consumption</b>	250 million lb	210 million lb
<b>U.S. Production</b>	100 million lb	140 million lb

- Calculate the welfare loss to U.S. consumers of steel from the tariff. (5 marks)

**Continued...**

- ii) Calculate the gain to U.S. producers of steel from the tariff. (5 marks)
- iii) Calculate the revenue collected by the U.S. government from taxing Steel imports (2 marks)
- B) 'The higher the tariff, the more domestic production is increased. Thus, a prohibitive tariff is socially optimal.' Explain the validity of this statement. (8 marks)
- C) Discuss how likely is dumping to be predatory. (5 marks)

**Question 3 (25 marks)**

- A) Analyse the **FOUR (4)** different types of Economic Integration experienced by European nations. (10 marks)
- B) Identify any **THREE (3)** forms of non-tariff barriers. (9 marks)
- C) Briefly examine each of the following terms: (6 marks)
  - i) Foreign exchange swap
  - ii) Arbitrage
  - iii) Triangular arbitrage

**Question 4 (25 marks)**

- A) Analyse the relationship between balance of trade and change in the exchange rate. (15 marks)
- B) Evaluate **FOUR (4)** reform measures that have been suggested to reduce the possibility and frequency of international financial crises, experienced by the developing countries. (10 marks)

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